



UNITED STATES DEPARTMENT OF COMMERCE
The Assistant Secretary for Communications
and Information
Washington, D.C. 20230

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April 9, 1998

FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

DOCKET FILE 007 ORIGINAL

The Honorable William E. Kennard
Chairman
Federal Communications Commission
Room 814
1919 M Street, N.W.
Washington, D.C. 20554

Re: Report to Congress on Universal Service under the
Telecommunications Act of 1996 -- CC Docket No. 96-45

Dear Chairman Kennard:

The convergence of computing and communications raises a host of difficult legal and policy issues that must be addressed if the nation is "to secure lower prices and higher quality services for American telecommunications consumers and encourage the rapid deployment of new telecommunications technologies."^{1/} I understand that a number of these questions will be discussed in the above-captioned Report on Universal Service that is due to Congress on April 10. The Administration would like to highlight two areas of concern -- universal service and regulatory treatment of Internet telephony.

With respect to universal service, the Commission has accomplished much already. After working closely with a Federal-State Joint Board, the Commission in May 1997 made substantial progress in implementing the framework established by Congress in the Telecommunications Act of 1996. Most notably, the Commission strengthened existing programs to provide universal service support to low-income households and created new mechanisms to ensure that schools, libraries, and rural health centers will have affordable access to advanced telecommunications services and facilities.

On the other hand, however, the Commission is still struggling with the difficult task of developing adequate mechanisms to provide universal service support to rural, insular, and high cost areas. The Administration believes that the Commission should make the resolution of this issue a high

^{1/} Telecommunications Act of 1996, Pub. L. No. 104-104, preamble, 110 Stat. 56. See also Letter from Senators Ted Stevens and Conrad Burns to FCC Chairman William Kennard (Jan. 26, 1998).

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priority in the coming months. In so doing, the Commission need not and should not be wedded to the funding mechanism initially proposed, under which the Federal universal service program would cover only 25 percent of the costs of providing affordable service to high cost areas. We are simply not convinced that this approach will provide funding sufficient to achieve the desired result.

You recently articulated a number of principles that have stimulated productive dialogue with the States and industry concerning how this inquiry should proceed.^{2/} In addition, the States have been working diligently to identify alternative mechanisms that will result in sufficient funding for all parts of the country. The Administration therefore urges the Commission to confer expeditiously with the States, either through the Joint Board process already established or through less formal processes, to develop a funding mechanism that better serves the goals of the 1996 Act.

With respect to Internet telephony, the Administration wishes to reiterate the position stated in my letter to Chairman Hundt dated May 8, 1996: The Commission should do nothing that would thwart the growth and vibrancy of the Internet. While legitimate issues have been raised regarding the obligations of new players to contribute to universal service, any proposal to regulate Internet telephony as a "telecommunication service" would raise contentious issues, resolution of which would have international, as well as domestic, repercussions. Thus, the Administration urges the Commission not to change its current approach. The Administration is prepared to work with Congress, the Commission, industry, and all other stakeholders to ensure that universal service goals are met. However, we must be careful not to thwart the development of an innovation that

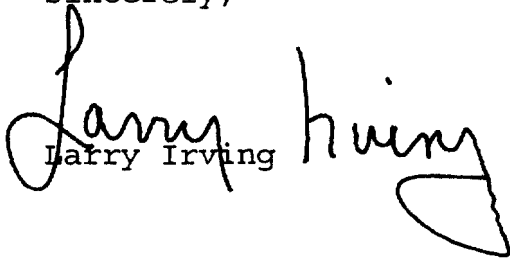
^{2/} Remarks by FCC Chairman William Kennard to the National Association of State Utility Consumer Advocates (Feb. 9, 1998) <<http://www.fcc.gov/Speeches/Kennard/spwek803.html>>.

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promises consumers the very kind of competitive alternative that the 1996 Act was intended to encourage.

Thank you for considering these views.

Sincerely,


Larry Irving

cc: Honorable Susan Ness
Honorable Harold W. Furchtgott-Roth
Honorable Michael K. Powell
Honorable Gloria Tristani